EnerMark Income Fund

1997

ANNUAL

REPORT

Corporate Profile

The EnerMark Income Fund ("EnerMark" or the "Fund") was created in April of 1996 pursuant to the reorganization of Mark Resources Inc. into a Royalty Trust Fund. EnerMark is an investment trust designed to provide regular cash distributions to investors seeking exposure to the oil and gas industry. It offers the benefits of owning producing oil and gas properties without the exploration risks associated with owning oil and gas common shares. The Fund is the newest member of the Enerplus Group, an employee-owned advisory and management group established in 1985 to provide a wide range of specialized energy related investment services for investors.

With oil and gas common share investments, earnings are retained primarily for reinvestment. With this Fund however, all net cash flow generated from the properties is paid to the Fund's Unitholders after any deductions for debt servicing and capital expenditure funding. The Units are eligible for all RRSPs, RRIFs and DPSPs.

EnerMark holds interests in oil and gas producing properties primarily in western Canada which yielded 22,535 BOE/d in 1997. The Fund is committed to maximizing Unitholders' interests and ensuring long-term, steady cash flow through its strategy of replacing depleted reserves on an ongoing basis. The development and operation of properties in a prudent, cost conscious manner while ensuring the safety of employees, the public and the environment, is also a fundamental strategy of EnerMark.

Contents

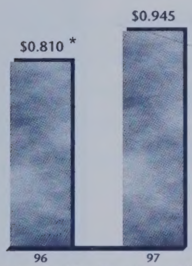
Annual General Meeting

The Annual General Meeting of the Unitholders of EnerMark Income Fund will be held in Conference Room B, Plus 30 Level of Western Canadian Place, 700 - 9th Avenue, S.W., in Calgary, Alberta, commencing at 11:00 a.m. on May 7, 1998. Unitholders are encouraged to attend and those unable to do so should complete the Form of Proxy and forward it at their earliest convenience.

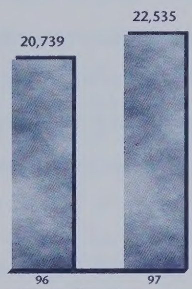
Annual Information Form

A copy of the Annual Information Form is available upon request by writing to Investor Relations, Suite 1900, 700 - 9th Avenue S.W., Calgary, Alberta T2P 3V4 or by calling 1-800-319-6462.

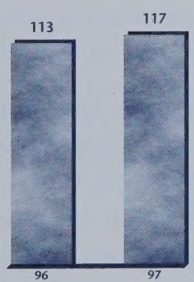
Highlights



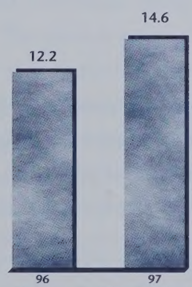
Cash Available for Distribution
($/Unit)



Daily Production
(BOE/d)



Reserves Replacement
(%)



Reserve Life Index
(Proven & Probable - years)

- Replaced 309% of 1997 production at a cost of $5.71 per BOE.
- Increased the year end proven and probable Reserve Life Index from 12.0 years in 1996 to 14.6 years in 1997.
- Acquired Quest Oil & Gas Inc. for $112.8 million cash and 1.2 million units.
- Increased the proven and probable reserves by 17%.
- Divested of 7.2 million BOE of non-core proven and probable reserves at $6.40 per BOE.
- Successfully divested of all U.S. based assets.
- Drilled 122 gross (46 net) low risk development wells.
- Reduced the taxable portion of the 1997 cash distributions to 21% from 30% in 1996.

* For the nine months from inception to December 31, 1996 only.

Message to Unitholders

Notwithstanding the challenging environment faced by the Canadian oil and gas industry in 1997, it was a successful year for EnerMark Income Fund. Our principal objectives for 1997 were to strengthen the asset base of the Fund, pursue strategic acquisitions to increase reserves and production, and achieve improved cost efficiencies. I am pleased to report that the management and the employees of EnerMark have surpassed these objectives. As a result, the Fund is in a strong financial position to continue its growth during the difficult cycle we face in the immediate future.

Outside factors over which your management has little or no control, such as much lower than projected oil prices and increased competition from the proliferation of income and trust funds have and continue to have an adverse effect on the price of our units in the marketplace. It is important to understand that the oil and gas business is cyclical in nature. EnerMark trust units represent a medium- to long-term investment which should be held until the next positive cycle is reached.

1997 Highlights

- Proven and probable reserves increased 17% in 1997 to 117.0 million BOE, after allowing for the divestment of 7.2 million BOE of non-core proven and probable reserves and production of 8.2 million BOE.
- The reserve life index of the Fund has been extended to over 14 years at the end of 1997, compared with 12 years at the end of 1996. This gives EnerMark a longer reserve life index than the vast majority of conventional oil and gas trusts.
- Since its creation in 1996, the primary objective of the Enermark Income Fund has been to replace at least 100% of production every year, proving that the Fund is not depletive. In 1997, Enermark Income Fund added 25.3 million BOEs to its reserve base, net of divestments of 7.2 million BOEs. This represents a replacement ratio of 3.1 times the 1997 production.
- Due in part to the acquisition of Quest Oil & Gas Inc., the taxable portion of the 1997 cash distributions was reduced to 21% from the original forecast of 30%.
- The net cost of reserve additions for 1997 was $5.71 per BOE, a figure substantially below the average of more than $8.00 per BOE for the Canadian oil and gas industry as a whole.
- General and administrative expenses were reduced substantially in 1997 to $4.5 million, down 36% from the annualized figure of $7 million for 1996. Likewise, management fees totalled $2.3 million, down 11% from the annualized amount of $2.6 million in 1996.
- EnerMark accelerated its development activities in 1997. The Fund participated in the drilling of 122 gross development wells primarily in the Giltedge, Chauvin and Butte areas. The development program resulted in the addition of 5.5 million BOEs to the Fund's reserves at an average cost of $5.65 per BOE.

1998 Outlook

Canadian oil and gas producers are facing a difficult and uncertain financial environment in 1998. A sharp decline in oil prices, widening differentials between light and heavy crude oil and the prospect of a stronger Canadian dollar vis-à-vis the US dollar will result in a drastic reduction of revenues, cash flows and netbacks. The relative strength of natural gas prices will only partially offset the impact on most producers.

Commodity Pricing

Oil prices declined gradually throughout the second half of 1997 due to several worldwide factors including the Asian economic meltdown, the continuing Iraq crisis and the increase in supply from all sources while demand has remained stagnant with further signs of receding in the near future. This downward trend has accelerated in the early months of 1998 with the price of a barrel of West Texas Intermediate ("WTI") crude falling below US$13.50 in mid March of 1998. This is not a new problem for oil producers, as the price of oil has declined to comparable levels in 1993 and had been substantially lower in 1986. It is impossible to project how long this new "down" cycle will last, but we remain confident that prices will stabilize in the near term to levels that will allow satisfactory operating margins.

Natural gas prices have been particularly strong to date in 1998 due in part to the additional pipeline capacity becoming available in November of this year. The demand for natural gas is projected to grow at a reasonable rate in the next three or four years and therefore, prices should remain strong for the near future. However, there is a possibility that a long period of very low oil prices could result in some inter-fuel competition affecting natural gas prices.

Industry Impact

Stock markets in North America have continued to set new records again in 1998. Most industry groups have performed well with the exception of commodity stocks including oil and gas producers and income/trust funds. The income and trust fund sector of the industry more than doubled in size in 1997 to about $15 billion. The aggressive marketing of these new trusts, along with lower distribution expectations due to the drop in oil prices, has had a negative impact on our Units. However, we are confident that cash distributions will remain at levels which will provide an excellent yield and that the 1998 distributions will approach our objective of $0.83 per Unit. We continue to view EnerMark Income Fund Units as a medium- to long-term investment which provide a high, monthly cash yield. The Fund is strong financially with a low level of debt and with oil prices depressed, there will be opportunities to acquire additional assets at more realistic prices than in the past year. The trend towards rationalization and consolidation within the producers sector is expected to accelerate in the second half of 1998, offering EnerMark the opportunity to make corporate acquisitions. Likewise, the number of income and trust funds will likely be reduced significantly through mergers and acquisitions with the most experienced funds, like Enermark, absorbing more recent entities.

I would like to congratulate Mr. Dennis Gieck on his appointment to Chief Operating Officer. His skills and motivation have made a meaningful contribution to the growth and success of EnerMark. In closing, I want to thank our employees and directors for their contribution and dedication during the year.

Marcel J. Tremblay
President and Chief Executive Officer
Calgary, March 11, 1998

1998 Outlook

Objectives

EnerMark is well positioned to strengthen its asset base, pursue strategic acquisitions and achieve cost efficiencies in 1998 through a number of strategies:

- Development activity will focus on areas where reserve values and cash flow can be maximized. EnerMark will participate in drilling up to 85 gross wells (33 net wells) in areas where EnerMark has a strong technical knowledge base.
- EnerMark has opportunities to increase production volumes through the exploitation of newly acquired and existing reserves where production infrastructures exist. A production target of 23,800 BOE/d has been set for 1998.
- EnerMark strives to maximize upside potential while minimizing risks to our Unitholders. Therefore, high risk exploration prospects are exploited through farmout arrangements with industry partners at no cost to the Fund. The Fund will endeavor to maintain or increase its reserve base of 117.1 million BOE through low cost development projects and acquisitions.
- The reduction of operating costs is a priority. This will be achieved through the rationalization of landholdings, the maximization of production and the regular review of costs. The 1998 target is to attain an operating cost of $4.50 per BOE or less.
- Our goal is to maintain general and administrative expenses at a level of $0.55 per BOE.

Capital Expenditure Program

In 1998, EnerMark will continue its program to develop projects which are expected to maintain reserves and increase returns to the Unitholders. It is anticipated that $23.8 million of capital will be spent in 1998 primarily on development drilling, the construction of facilities, well workovers and well completions.

The Fund plans to direct 90% of its capital expenditures to production enhancement. Approximately 70% of all expenditures will be spent on properties operated by the Fund.

New acquisition guidelines were approved by the Unitholders in December, 1997. These guidelines will ensure that the Fund has the ability to remain competitive in the industry while making acquisitions which are in the best interest of EnerMark and which improve Unitholder value.

Cash Distribution Objective

Our 1998 objective for cash available for distribution is $0.83 per Unit. This objective includes revenues that are anticipated as a result of the 1998 capital expenditure program.

EnerMark remains committed to providing Unitholders with superior investment returns through the pursuit of growth opportunities and the efficient ongoing management of operations.

Factors Influencing Cash Available for Distribution

The 1998 cash available for distribution target of $0.83 per Unit is based on the following factors:

	Daily Production	Prices
Crude oil and NGLs	15,900 bbl/d	WTI US$19.00/bbl
Natural gas	79,000 Mcf/d	$2.00/Mcf
Total BOE	23,800 BOE/d	
$US/$Cdn exchange rate		$0.70

Sensitivities for Cash Available for Distribution

Factor	Variance	Impact
Crude oil and NGLs price	±US$1.00/bbl	±5.7¢/Unit
Natural gas price	±$0.10/Mcf	±2.1¢/Unit
$US/$Cdn Exchange Rate	±US$0.01	±1.5¢/Unit

Some assumptions used at the time the objective was prepared, although considered reasonable by EnerMark, may prove to be incorrect. Investors are cautioned that the objective is based on assumptions and there is a significant risk that actual results will vary, perhaps materially, from the objective presented.

Operations Review

Production

Production for the year ended December 31, 1997 of oil, natural gas and NGLs averaged 22,535 BOE/d. Development projects planned for 1998 in the Calling Lake, Chinchaga, Progress and Tatagwa areas are forecast to increase production during 1998.

1997 Key Producing Properties	Liquids (bbl/d)	Natural Gas (Mcf/d)	Total (BOE/d)
Valhalla	1,494	7,680	2,262
Giltedge	1,957	238	1,981
Deep Basin	348	13,305	1,679
Utikuma	1,416	276	1,444
Little Horse	1,305	-	1,305
Progress	261	8,722	1,133
Cranberry Botha	153	7,520	905
Pine Creek	139	7,364	875
Kaybob South	382	4,050	787
Chauvin	645	-	645
Heward	442	-	442
Gift Lake	424	-	424
Battle Creek	398	-	398
Malmo	264	1,151	379
Grande Prairie	342	-	342
Calling Lake	-	3,284	328
West Kingsford	257	-	257
Veteran	237	-	237
Total Key Producing Properties	**10,464**	**53,590**	**15,823**

Drilling Activities

In 1997, EnerMark participated in the drilling of 122 gross wells (46 net wells) with an average working interest of 37%. An additional 64 wells were drilled at no cost to the Unitholders resulting in 30 oil wells, 16 natural gas wells, 2 service wells and 16 dry holes, for a success rate of 75%.

EnerMark's plans for 1998 include the drilling of 85 gross wells (33 net wells) with an average working interest of 53%. The Fund expects to operate 33 of these proposed wells. An additional number of wells are also anticipated to be farmed out in 1998.

Drilling activity and results for the year ended December 31, 1997		Gross	Net
Development wells:	Oil	89	40.6
	Gas	26	2.2
	Dry	7	2.9
	Total	122	45.7
	Success rate	94%	94%
Farmout wells:	Oil	30	
	Gas	16	
	Service	2	
	Dry	16	
	Total	64	
	Success rate	75%	

Acquisitions and Divestments

The acquisition and divestment program proved successful in 1997, with a total of 26,921 MBOE proven and probable reserves acquired at an average cost of $5.91 per BOE. This compares very favourably to the industry average acquisition cost of $6.59 per BOE.

EnerMark disposed of 7,160 MBOE of proven and probable reserves for $45.8 million, which is equivalent to $6.40 per BOE. The Fund was successful in divesting of its U.S. assets. This disposition consisted of high-operating cost, producing oil and natural gas properties, undeveloped land and seismic, primarily in North Dakota. Total proceeds of disposition were $19.6 million.

The sale of non-producing assets consisting mainly of facilities and seismic data generated $2.8 million for the Fund.

In 1998, EnerMark plans to purchase additional reserves in core areas and to dispose of non-core properties in a continuing effort to increase control and efficiency.

Development Activities

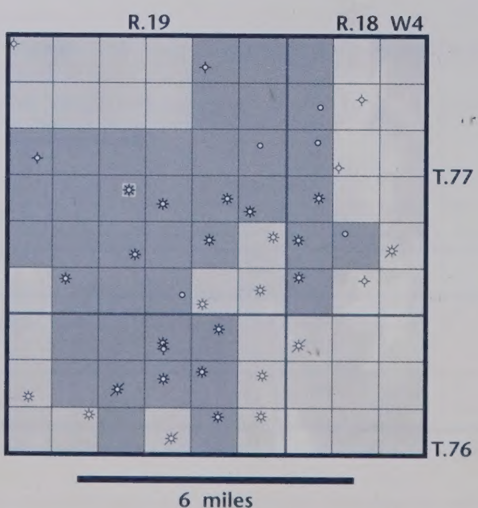
Development expenditures for the period amounted to $31.2 million and added 5,512 MBOE at an average cost of $5.65 per BOE.

In 1997, EnerMark participated in the drilling of 122 development wells, with most of the activity taking place in the Giltedge, Chauvin, Butte, Little Horse and Jenner areas. Increased production was also achieved by facility construction and well tie-ins undertaken in the Giltedge, Chauvin and Butte areas.

Net Cost of Reserve Additions

Proven and probable reserves	Reserves (MBOE)	Cost ($/BOE)
Acquisitions	26,921	$5.91
Divestments	(7,160)	$6.40
Development expenditures	5,512	$5.65
Revisions	60	-
	25,333	$5.71

Major Activities

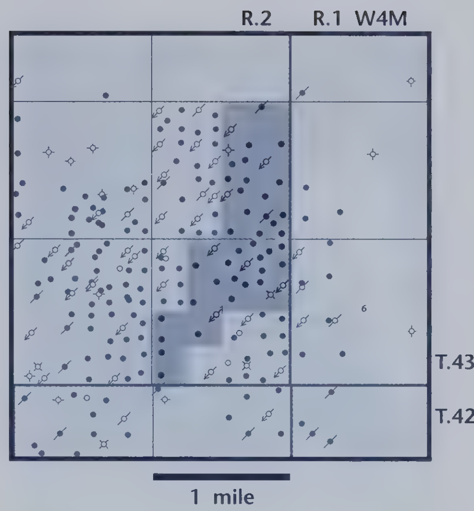


Calling Lake, Alberta

- EnerMark operated property with a 100% working interest;
- Current production is 3 MMcf/d;
- Drilled one well in 1997;
- Five wells to be drilled and completed in 1998;
- Production estimated to average 5 MMcf/d in 1998.

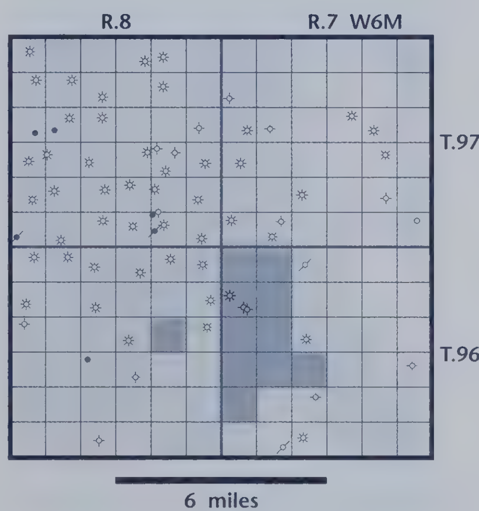
Chauvin, Alberta

- EnerMark operated property with a 100% working interest;
- Current oil production of 550 bbls/d;
- Drilled and tied-in nine Lloydminster and Sparky oil wells in 1997 resulting in incremental production of 400 bbls/d;
- The waterflood will be expanded in the first quarter of 1998.



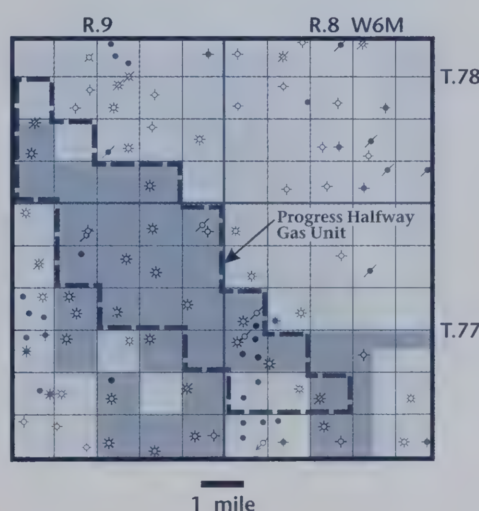
Chinchaga, Alberta

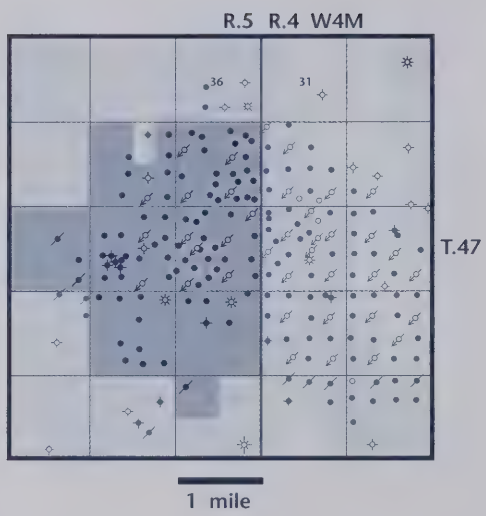
- EnerMark operated property with a 91.5% working interest;
- Tied-in one well in 1997;
- Current production is 700 Mcf/d net to the Fund;
- Five wells will be drilled in 1998;
- Production forecasted to average 2 MMcf/d net to the Fund in 1998.



Progress, Alberta

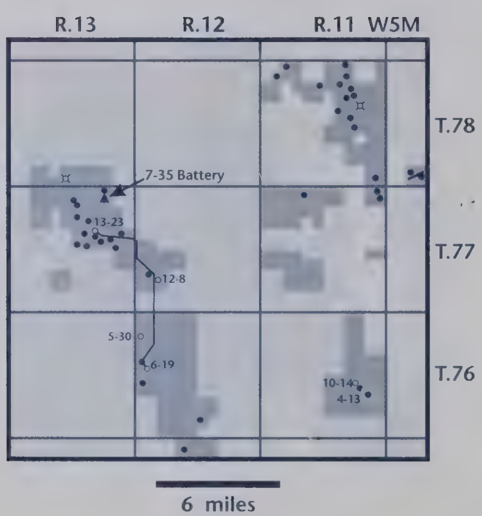
- EnerMark has a 26.6% working interest in this natural gas unit;
- Current production averages 8.5 MMcf/d net to the Fund;
- One successful Halfway zone gas well was drilled in 1997, adding 1.3 MMcf/d net to the Fund;
- Two Halfway infill gas wells will be drilled in 1998.





Giltedge, Alberta

- EnerMark operated property with a 96% average working interest;
- Current oil production of 2,300 bbls/d net to the Fund;
- Drilled 15 Lloydminster infill wells in 1997, resulting in net incremental oil production of 600 bbls/d net to the Fund;
- High volume lift equipment was installed in six wells in 1997, resulting in net increased oil production of 150 bbls/d;
- Battery and related facilities were upgraded;
- Waterflood project to be expanded in 1998.

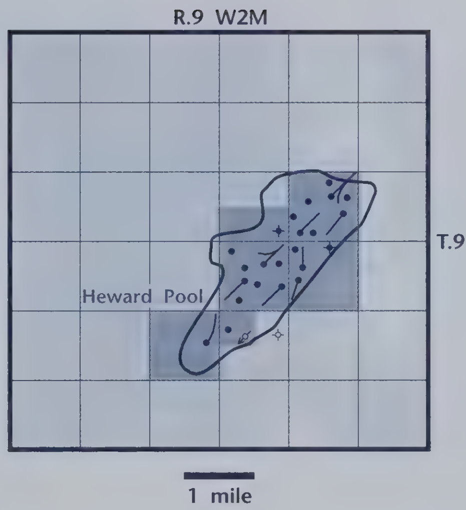


Little Horse/Gift, Alberta

- EnerMark operated property with working interests varying between 50% - 100%;
- Current production of 1,700 bbls/d net to the Fund;
- Central battery expanded and gathering system extended in 1997;
- One operated well to be drilled in 1998;
- Five farmout wells committed to be drilled in 1998.

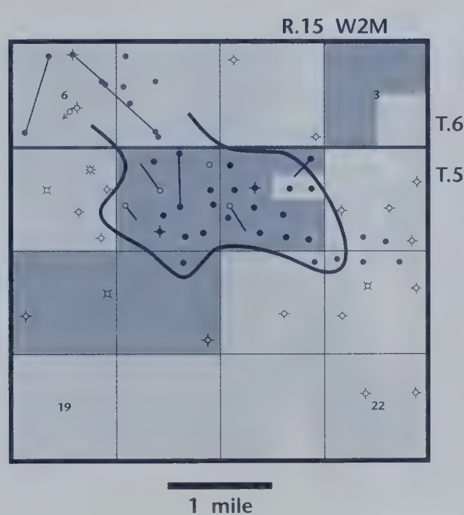
Heward, Saskatchewan

- EnerMark operated property with working interests from 50% - 100%;
- Current oil production of 530 bbls/d net to the Fund;
- Upgraded battery and water handling facilities in 1997;
- Installed high volume lift pumps in two existing wells in 1997 resulting in initial incremental oil production of 100 bbls/d net to the Fund;
- Drilled a successful Frobisher horizontal oil well capable of more than 200 bbls/d net to the Fund;
- Drilled one successful Frobisher horizontal re-entry well in December, 1997, adding 30 bbls/d net to the Fund;
- Four additional wells, two horizontal and two "sidetrack" re-entry wells, are planned in the Frobisher zone for 1998.



Tatagwa, Saskatchewan

- EnerMark operated property with an average working interest of 95%;
- Current oil production of 300 bbls/d net to the Fund;
- Drilled one vertical Midale oil well in 1997 resulting in incremental oil production of 60 bbls/d net to the Fund;
- A Midale Marly horizontal well and a Marly re-entry well to be drilled in early 1998, with two additional wells planned for late 1998.



Undeveloped Land Base

EnerMark's undeveloped land inventory in the western provinces is 507,159 net acres with 78% located in Alberta, 13% in Saskatchewan and 9% in British Columbia.

Activities directed toward the monetization of the undeveloped land base resulted in 54 farmout well commitments at no cost to the Fund, $3.9 million of fees earned with respect to seismic and option rights on lands granted to third parties and $11.2 million of divestment proceeds. EnerMark has retained a gross overriding royalty on 65% of the divested properties allowing the Fund to share in any upside potential that may result on these lands. To date, 36 of the 54 committed wells have been drilled, resulting in 13 gas wells, 14 oil wells and 9 dry holes.

Land Inventory	Developed		Undeveloped	
Area	Gross Acres	Net Acres	Gross Acres	Net Acres
Alberta	1,103,473	239,250	949,300	394,668
British Columbia	213,315	26,223	126,483	45,298
Saskatchewan	95,933	45,058	115,295	66,740
Manitoba/NWT	2,655	578	1,248	453
Total	1,415,376	311,109	1,192,326	507,159

Seismic Inventory

EnerMark has a seismic inventory of 75,000 km of two dimensional data and 750 km^2 of three dimensional data.

Seismic data sales generated proceeds of approximately $1 million in 1997.

Marketing Arrangements

Natural Gas

The NYMEX "Henry Hub" annual average price for natural gas in 1997 was US$2.61/MMbtu, just slightly above the record set in 1996. This historically high price is evidence of the strength in demand for natural gas in the industrial sectors and increased use of natural gas for electricity generation. As well, there is a view that there is no longer a significant supply surplus in North America to meet the continuing demand growth.

Natural gas in Alberta was still unable to fully access the strong American markets in 1997 due to a lack of export pipeline capacity. However, despite the milder weather of El Niño depressing prices in the latter few months of the year, strong summer demand and pricing served to support an average Alberta field spot price of approximately $1.75/Mcf. With the Northern Border Pipeline Expansion/ Extension and the TCPL capacity increase, additional export capability will be in place by the end of 1998. The expectation of the incremental demand for Alberta natural gas to fill this capacity should strengthen domestic pricing for the coming year.

EnerMark's natural gas production is marketed through a diverse portfolio of contractual arrangements that captures both the strong U.S. pricing as well as the recent upswing of Alberta prices. Just over one third of the Fund's gas was sold to the major aggregators: TransCanada Pipelines, PanAlberta Gas, and Progas. Because of their ability to move natural gas to the U.S., the Fund saw substantial increases over last year's netback prices received from these marketers. In 1997, EnerMark increased its natural gas under contract to PanAlberta through the acquisitions in the Peace River Arch area. The remainder of the Fund's natural gas was marketed in Alberta under a variety of arrangements including some at fixed prices for differing periods of time.

Overall, EnerMark received a weighted average price of $1.87/Mcf for its production in the field. This marks an increase of 22% over the 1996 average price of $1.53/Mcf.

The Fund remains optimistic about the future of natural gas and has positioned itself to benefit from the coming changes to both the domestic marketplace as well as the positive North American outlook.

Crude Oil and NGLs

Trading of West Texas Intermediate crude oil on the New York Mercantile Exchange during 1997 was marked by greatly increased volatility. WTI prices ranged from US$26.62/bbl in January to US$17.60/bbl in December. The annual average of US$20.61 for 1997 was down 6.4% from 1996. The realization of increased available supply from both OPEC and non-OPEC producers, combined with fears of declining demand growth resulting from the Asian economic turmoil, caused the softening in world oil pricing.

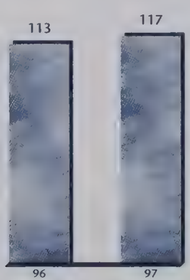
Heavy oil revenues suffered substantial reductions as the pricing differential between crude and light oil widened in the latter part of the year. Since only 16% of the Fund's budgeted revenue stream comes from heavy oil, the impact of lower heavy oil prices will be mitigated.

The Fund's produced crude oil and natural gas liquids are marketed to a diverse portfolio of intermediaries and end users. EnerMark received an average wellhead price of Cdn$22.42/bbl which marks an 18% decrease from prices received last year.

Petroleum & Natural Gas Reserves

Reserves and Future Net Revenues

In 1997, the Fund increased its total proven and probable reserves by 17%. The following tables reflect EnerMark's reserves of crude oil, natural gas and NGLs which have been evaluated by the Fund. Sproule Associates Limited, a firm of independent petroleum engineers, has audited 83% of the Fund's total reserves. All evaluations of future net production revenues set forth in the tables are stated without any provision for income taxes, general and administrative costs and management fees. Probable reserve values have not been reduced to account for risk. It should not be assumed that the discounted value of estimated future net revenues is representative of the fair market value of the estimated petroleum and natural gas reserves.



Reserves Replacement
(%)

Reserves Summary

	Crude Oil (MMbbl)	Natural Gas (Bcf)	NGLs (MMbbl)	BOE (MMBOE)
Total reserves as at December 31, 1996	51.2	377.2	11.1	100.0
Proven	44.2	346.6	9.4	88.3
Probable	15.6	98.9	3.2	28.7
Total reserves at December 31, 1997	**59.8**	**445.5**	**12.6**	**117.0**

Present Worth of Production Revenue

Present Worth as at December 31, 1997 Discounted at	10%	12%
($thousands)		
Proven producing	$434,672	**$401,235**
Proven non-producing	125,524	**108,690**
Total proven	560,196	**509,925**
Probable	115,449	**99,693**
Total reserves	675,645	**609,618**
ARTC	10,868	**9,679**
Total present worth	$686,513	**$619,297**

Probable values are not reduced to account for risk.

Reserves Reconciliation

	Crude Oil (Mbbl)		Natural Gas (MMcf)		NGLs (Mbbl)		Total BOE (MBOE)		Total MBOE Proven & Probable
	Proven	Probable	Proven	Probable	Proven	Probable	Proven	Probable	Probable
Opening Reserves at December 31, 1996	37,266	13,886	275,118	102,114	7,950	3,124	72,728	27,221	99,949
Production	(4,674)	-	(28,066)	-	(745)	-	(8,226)	-	(8,226)
Divestments	(2,997)	(1,895)	(15,119)	(1,947)	(511)	(50)	(5,020)	(2,140)	(7,160)
Acquisitions	11,846	1,422	101,368	13,177	1,954	244	23,937	2,984	26,921
Drilling and development	2,468	619	17,712	(3,985)	917	135	5,156	356	5,512
Revisions	297	1,524	(4,370)	(10,480)	(91)	(185)	(231)	291	(60)
Reserves at December 31, 1997	**44,206**	**15,556**	**346,643**	**98,879**	**9,474**	**3,268**	**88,344**	**28,712**	**116,936**

Pricing Assumptions

To calculate the present worth of production revenue, the December 31, 1997 pricing assumptions of Sproule Associates Limited for crude oil and natural gas were used. These pricing assumptions were adjusted for any reserve quality adjustments, transportation charges and the provisions of any applicable sales contracts.

	Crude Oil		Natural Gas	
	WTI [1] Cushing	Light Crude [2]	TCGS [3] Average	$US/Cdn
	Oklahoma	Edmonton	Plant Gate Price	Exchange
Year	$US/bbl	$Cdn/bbl	$Cdn/MMbtu	Rate
1998	20.52	27.23	1.79	0.73
1999	21.06	27.69	1.92	0.73
2000	21.61	28.43	2.02	0.73
2001	22.17	29.19	2.09	0.73
2002	22.76	29.97	2.18	0.73
Thereafter[4] 2.6% to 2017, 2.0% thereafter				

[1] West Texas Intermediate at Cushing, Oklahoma.

[2] Edmonton refinery postings for 40° API, 0.4% sulphur content crude.

[3] Average prices for long-term natural gas sales contracts by TransCanada Gas Services Limited ("TCGS").

[4] Average percentage escalations per year.

Net Asset Value

Despite a decrease in reserve values resulting largely from lower escalation rates applied in forecasted prices used in the reserve evaluation, EnerMark increased its overall reserve volumes by 17% over 1996. Proven reserves increased by 22% over 1996 levels.

Net Asset Value as at December 31, 1997

($million, except per Unit amounts)	**1997**	1996
Present value of crude oil, natural gas and NGLs reserves discounted at 12 percent	**$ 619.3**	$ 574.8
Undeveloped acreage and seismic	**56.4**	53.8
Net debt	**(102.9)**	(38.3)
Net asset value	**$ 572.8**	$ 590.3
Net asset value per Unit	**$ 5.21**	$ 6.33

Environment and Safety

EnerMark continues to emphasize the importance of creating and maintaining a safe and environmentally sound operation. Our mandate in this area focuses on the following:

- **Proper training of field operators is integral to improved safety and environmental performance.**

  EnerMark continues to review and improve its Operator Training and Development Program to ensure that all operating staff receive the appropriate training to perform their jobs safely and efficiently. In addition, a Loss Control Council consisting of field operators has been formed to conduct operational reviews of operated sites, with a view to improved operator training and the sharing of ideas.

- **Continuous, thorough review of our operating procedures and policies are conducted by the field operations staff and management.**

  EnerMark field employees attend regular meetings to discuss operational issues and changes in regulations and company policies. As well, operating staff attend regional meetings each year which enable a larger forum for input from field personnel. Senior management participates directly in these regional meetings to ensure ideas are incorporated appropriately into policies and procedures.

- **Monitoring of and compliance with safety and environmental regulations.**

  EnerMark conducts annual audits or inspections on selected operated and non-operated properties using third party services to ensure environmental and safety standards are being maintained. In addition, EnerMark's Environment and Safety group conducts internal inspections of operated properties and this, combined with the Loss Control Council inspections, ensures that a broad spectrum of operated and non-operated sites are inspected yearly.

  EnerMark's Environment and Safety group continually monitors changes to regulations governing safety and environment to ensure that its operations adhere to industry standards.

  This group reviews all acquisitions to ensure that new properties carry no significant safety or environmental liabilities.

Management's Discussion & Analysis

1997 Financial Results

The consolidated financial statements presented in this annual report include the results of operations of the Fund for the year ended December 31, 1997 with comparison to results from the Fund's inception on April 3, 1996 to December 31, 1996.

Revenue

Gross revenues were $173.9 million for the year ended December 31, 1997 versus $132.4 million from the Fund's inception to December 31, 1996. Crude oil and NGLs production for 1997 averaged 14,846 bbls/d, up 9% from the 1996 average of 13,624 bbls/d. Natural gas averaged 76,894 Mcf/d during 1997 which was 8% greater than the 1996 average of 71,154 Mcf/d. The increase in the daily production rates are attributable to the acquisition of Quest Oil and Gas, Inc. ("Quest") in the second quarter of 1997, producing property acquisitions, net of divestments and the results of the 1997 capital expenditure program. The average crude oil and NGLs price of $22.42/bbl was $4.84/bbl or 18% lower than the 1996 price of $27.26/bbl. Natural gas averaged $1.87/Mcf, which was $0.34/Mcf or 22% higher than the price in 1996 of $1.53/Mcf. Interest and other income increased by $3.9 million primarily as a result of fees earned with respect to seismic and option rights on undeveloped lands granted to third parties.

The following table analyses the changes in gross crude oil and natural gas revenues over the past year:

($millions)	Crude Oil & NGLs Revenues	Natural Gas Revenues	Other Revenues	Total	Percent Change	Crude Oil & NGLs/ Gas Ratio
1996 Gross revenues	$102.1	$29.9	$0.4	$132.4	-	77:23
Increase (decrease)						
Volume variance	45.6	13.0	-	58.6		
Price variance	(26.2)	9.7	(0.6)	(17.1)		
	19.4	22.7	(0.6)	41.5		
1997 Gross revenues	**$121.5**	**$52.6**	**$(0.2)**	**$173.9**	**+31%**	**70:30**

Expenses

The net royalty rate for 1997 decreased by 2% to 18% due to an adjustment to crown royalties for prior years.

Operating expenses were $39.9 million in 1997 compared to $25.9 million for the partial year of 1996. On a BOE basis, operating expenses increased by 5% to $4.85 per BOE from $4.60 per BOE.

General and administrative expenses decreased by $0.7 million or 14% to $4.5 million. On a BOE basis, general and administrative expenses declined by 41% to $0.55 per BOE mainly as a result of increased production and greater recoveries associated with the properties acquired from Quest.

In April of 1997, management fees were reduced to 2.2% of Canadian oil and gas operating income from 2.5% in 1996.

The reduction in the fee percentage, when combined with the effect of greater Canadian oil and gas operating income, resulted in an increase in management fees of $0.4 million or 18% to $2.3 million.

Interest expense declined by $0.7 million to $5.1 million in 1997 due to lower average outstanding bank debt and lower interest rates.

Depletion, depreciation and amortization rose by $27.9 million or 63% in 1997 due to increased charges related to higher production. The charge for depletion and amortization on a BOE basis increased by 12% to $8.75 from $7.81 per BOE in 1996.

Funds Flow from Operations & Net Income

Funds flow from operations increased by $26.9 million or 41% to $92.9 million in 1997. Increases in oil and gas production more than offset increased operating expenses and lower crude oil and NGLs prices.

Net income increased by $4.0 million to $23.9 million for 1997 due primarily to the increase in funds flow from operations and the provision for deferred income tax recovery which more than offset the higher depletion, depreciation and amortization charges.

Cash Available for Distribution

Cash available for distribution increased by 49% to $97.2 million ($0.945 per Unit) in 1997 due to increased production volumes and higher natural gas prices which more than offset lower crude oil & NGLs prices and higher operating expenses.

Cash available for distribution in 1997 was also supplemented by fees earned with respect to seismic and option rights on lands granted to third parties as well as the inclusion of the operating cash flows of Quest from the effective date to the closing date of that acquisition.

Cash available for distribution is paid out by way of monthly cash payments to Unitholders on the 20th day of each month, with an adjustment at each quarter's end.

The following table analyses changes in cash available for distribution over the past year:

($millions)	Crude Oil & NGLs Revenues	Natural Gas Revenues	Other	Expenses	Total
1996 Cash available for distribution					$65.1
Increase (decrease):					
Volume variance	$45.6	$13.0	$ -	$ -	$58.6
Price variance	(26.2)	9.7	(0.6)	-	(17.1)
Interest and other income	-	-	3.9	-	3.9
Royalties, net of ARTC	-	-	-	(5.6)	(5.6)
Operating and other costs	-	-	-	(12.9)	(12.9)
Quest cash flow from effective to closing date	-	-	5.0	-	5.0
Funds flow attributable to Units held by wholly-owned subsidiary	-	-	0.2	-	0.2
	$19.4	$22.7	$8.5	$(18.5)	$32.1
1997 Cash available for distribution					**$97.2**

Income Taxes

The Fund is required to file an income tax return on an annual basis. Any income otherwise taxable in the Fund is allocated to Trust Unitholders. Approximately 21% or 20 cents per Unit of the 1997 cash distribution is currently taxable for EnerMark Unitholders. This compares with 30% or 24 cents per Unit for 1996. EnerMark expects the taxable portion of cash distributions to increase marginally in 1998.

The Fund qualifies as a mutual fund trust under the Canadian Income Tax Act and, accordingly, Units of the Fund are qualified investments for RRSPs, RRIFs and DPSPs.

The following is a general summary of the income tax consequences to a Unitholder who is a Canadian resident and holds the Units as a capital property:

- Unitholders are required to include in computing income their pro-rata share of any taxable income earned by the Fund in that year. Income of a Unitholder is considered income from property and not resource revenue.
- An investor's adjusted cost base ("ACB") in a Trust Unit equals the purchase price of the Unit less any non-taxable cash distributions received from the date of acquisition. To the extent a Unitholder's ACB in a Trust Unit is reduced below zero, such amount will be deemed to be a capital gain to the Unitholder and the Unitholder's ACB in the Trust Unit will be brought to $Nil. In general, Unitholders will have a capital gain or a capital loss upon disposition of the Units.

The following table presents the taxable portion of cash distributions per Trust Unit:

		1997		1996	
Record date	Payment date	**Distribution**	**Taxable Portion**	Distribution	Taxable Portion
March 10	March 20	**$0.075**	**$0.0161**	$ -	$ -
April 10	April 20	**0.075**	**0.0161**	-	-
May 10	May 20	**0.090**	**0.0193**	-	-
June 10	June 20	**0.075**	**0.0161**	0.075	0.0225
July 10	July 20	**0.075**	**0.0161**	0.075	0.0225
August 10	August 20	**0.090**	**0.0193**	0.100	0.0299
September 10	September 20	**0.075**	**0.0161**	0.075	0.0224
October 10	October 20	**0.075**	**0.0161**	0.075	0.0224
November 10	November 20	**0.090**	**0.0193**	0.110	0.0329
December 10	December 20	**0.075**	**0.0161**	0.075	0.0224
December 31	January 20, 1998	**0.075**	**0.0161**	0.075	0.0224
February 10	February 20, 1998	**0.075**	**0.0161**	0.150	0.0449
Total amount		**$0.945**	**$0.2028**	$0.810	$0.2423

Liquidity and Capital Resources

During the period, $87.2 million, net of issue expenses, was raised through a public offering of 13,000,000 Units at a price of $7.10 per Unit. These funds were used to retire bank indebtedness incurred to fund a portion of the cash purchase price for the acquisition of Quest. Additional Units of 1,190,660, with a recorded value of $8.1 million, were issued directly to former Quest common share and warrant holders under the terms of the Quest Arrangement. During 1997, 1,058,267 Trust Units of the Fund, held by a wholly-owned subsidiary, were sold in the public market for proceeds net of issue expenses in the amount of $7.5 million.

As at December 31, the Fund's capital structure was as follows:

	1997		1996	
Bank loan/equity capital structure ($millions)	Amount	Percentage	Amount	Percentage
Trust Unit equity, at cost	**$446.5**	**81%**	$412.1	91%
Bank debt, net of working capital	**102.9**	**19%**	38.4	9%
Total	**$549.4**	**100%**	$450.5	100%

As at December 31, 1997 the Fund had an unused line of credit of $71.5 million.

Capital Expenditure Funding

The ongoing capital expenditures of the Fund are financed through new issues of Trust equity, bank borrowing and funds flow from operations.

Bank loan principal payments, interest and capital expenditures are allowable deductions from cash otherwise available for distribution to Unitholders. During 1997, no amounts were withheld from cash available for distribution for bank loan payments or capital expenditures.

Net capital expenditures for the period amounted to $20.0 million. Expenditures were incurred for property acquisitions of $38.2 million with drilling and facility construction accounting for $27.0 million. Corporate expenditures amounted to $0.6 million. Net divestments of undeveloped land, properties, facilities and seismic data amounted to $45.8 million.

Year 2000

EnerMark has implemented a plan to resolve internal issues associated with the "Year 2000 Computer Problem" and is expending resources to ensure that proper due diligence is conducted both internally and externally. The Fund expects to incur internal staff costs as well as consulting and other expenses related to infrastructure and facility enhancements necessary to prepare the systems for the year 2000. The EnerMark Year 2000 Task Force is anticipating that all system corrections will be completed by early 1999, allowing adequate time for testing. The Fund continues to evaluate appropriate courses of corrective action, including replacement of certain systems for which costs would be capitalized and amortized over an appropriate period of time. Accordingly, the Fund does not expect the amounts that will be expensed over the next three years to have a material effect on its financial position or the funds flow from operations.

Reconciliation of Financial Forecast of Consolidated Statement of Net Income

For the year ended December 31, 1997 ($thousands except per Trust Unit amounts)	Actual	Forecast	Variance Favourable/ (Unfavourable)
Revenues			
Oil and gas	$173,919	$194,039	$ (20,120)
Royalties	(32,783)	(42,503)	9,720
Alberta Royalty Tax Credit	1,387	1,552	(165)
Interest and other income	4,062	437	3,625
Total Revenues	$146,585	$153,525	$ (6,940)
Expenses			
Production	39,886	37,284	(2,602)
General and administration	4,544	4,627	83
Interest	5,092	4,576	(516)
Management fees	2,338	2,564	226
Capital taxes	1,868	2,570	702
Depletion, depreciation and amortization	72,006	75,554	3,548
Total Expenses	$125,734	$127,175	$ 1,441
Net income before income tax	20,851	26,350	(5,499)
Deferred income tax recovery	3,004	2,140	864
Net Income	$ 23,855	$ 28,490	$ (4,635)

Revenues: Lower oil and gas revenues resulted from lower crude oil and NGLs prices ($8.2 million) combined with lower crude oil and NGLs volumes ($10.9 million) and lower natural gas volumes ($2.0 million). These decreases were offset in part by higher natural gas prices ($1.0 million).

Royalties: Royalties were lower mainly due to natural gas cost allowance adjustments relating to natural gas crown royalties for prior years and the effect of lower crude oil and natural gas revenues.

Interest and other income: The favourable variance arises from fees earned with respect to seismic and option rights on undeveloped lands.

Depletion, depreciation and amortization: The provision was lower mainly due to lower production volumes.

Production expenses: Higher than expected workover costs and maintenance expenditures were responsible for the increase in production expenses.

Deferred income tax recovery: The increase is due to the reduction in net income before tax offset in part by an excess of non-deductible crown charges over resource allowance.

Business Risks

Certain risks are associated with the finding, development, producing and marketing of oil and natural gas products. In addition, the oil and natural gas industry is subject to federal and provincial government regulation.

Commodity pricing is another business risk faced by all energy companies including EnerMark. Management may forward sell crude oil and natural gas under certain circumstances in order to mitigate price risk.

While EnerMark has no control over commodity pricing and changes in legislation, including changes to the ARTC, several strategies have been developed to manage risk. For example, the following guidelines have been established for the acquisition of oil and natural gas properties:

- Evaluated by independent engineers where the purchase price exceeds $5 million;
- Purchase price on a single transaction not to exceed present worth of estimated future net cash flow using a discount rate equal to the lesser of:
  - twice the yield on 10 year Government of Canada bonds, and
  - the yield on 10 year Government of Canada bonds plus 4% after deducting general and administrative expenses and incorporating the impact of debt financing, but before income taxes;
- Not more than 25% of the value of all oil and natural gas properties to be attributed to a single pool;
- Not more than 75% of the value of all oil and natural gas properties to be attributed to natural gas;
- Such other guidelines as approved by the Board of Trustees of the Fund and the Board of Directors of EnerMark from time to time.

Furthermore, the following strategies also help mitigate risk:

- Farm out exploratory or other high-risk drilling prospects;
- Participate in low risk development activities;
- Use reliable suppliers;
- Monitor pipeline and market conditions closely;
- Market products to a diverse range of buyers;
- Meet or exceed industry standards for liability insurance and purchase business interruption insurance for selected facilities where available;
- Keep abreast of current affairs to act quickly and proactively where possible; and
- Use the latest technology to improve all facets of business processes.

Financial Statements

Management's Responsibility

Management of the Fund is responsible for the preparation of the consolidated financial statements for the EnerMark Income Fund and for the consistency therewith of all other financial and operating data presented in this annual report.

Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely information.

External auditors, appointed by the Fund's Board of Trustees, have examined the consolidated financial statements of the Fund. The Audit Committee, consisting of unrelated Trustees of the Fund, has reviewed these statements with Management and the auditors, and has recommended their approval to the Board of Trustees. The Board of Trustees has approved the consolidated financial statements of the Fund.

Marcel J. Tremblay
President and Chief Executive Officer

Kelly I. Drader
Senior Vice President

Auditors' Report

To the Unitholders of EnerMark Income Fund:

We have audited the consolidated balance sheet of EnerMark Income Fund as at December 31, 1997 and 1996 and the consolidated statements of net income, accumulated income, accumulated distributions and changes in financial position for the year and the period then ended. These financial statements are the responsibility of the Fund's Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the year and period then ended in accordance with generally accepted accounting principles.

Price Waterhouse
Chartered Accountants
Calgary, Alberta
February 24, 1998

EnerMark Income Fund

Consolidated Balance Sheet

As at December 31 ($thousands)	1997	1996
Assets		
Current assets		
Cash and short-term investments	$ 34,786	$ 11,795
Accounts receivable	21,592	26,073
Other	3,550	4,320
	59,928	42,188
Property, plant and equipment	714,775	547,046
Accumulated depletion and depreciation	(109,528)	(41,983)
	605,247	505,063
Other Assets		
Deferred reorganization charges, net of amortization (*Note 4*)	3,283	4,293
Investments	1,745	-
	5,028	4,293
	$ 670,203	$ 551,544
Liabilities and equity		
Current liabilities		
Accounts payable	$ 30,167	$ 17,109
Payable to related company (*Note 4*)	4,218	3,599
	34,385	20,708
Bank debt (*Note 3*)	128,468	59,837
Deferred income taxes	50,167	53,189
Accumulated site restoration	10,731	5,723
	189,366	118,749
Equity		
Fund capital (*Note 5*)	548,706	436,433
Accumulated income	43,693	19,838
Accumulated distributions	(145,947)	(44,184)
	446,452	412,087
	$ 670,203	$ 551,544

Signed on behalf of the Fund:

Andrew Janisch
Trustee

Marcel J. Tremblay
Trustee

Consolidated Statement of Net Income

For the period ended December 31 ($thousands)	1997[1]	1996[2]
Revenues		
Oil and gas sales	$ 173,919	$ 132,423
Crown royalties	(25,869)	(22,300)
Alberta Royalty Tax Credit	1,387	1,304
Freehold and other royalties	(6,914)	(4,768)
	142,523	106,659
Interest and other income	4,062	114
	146,585	106,773
Expenses		
Operating	39,886	25,928
General and administrative	4,544	5,287
Management fee (*Note 4*)	2,338	1,983
Interest	5,092	5,776
Depletion, depreciation and amortization	72,006	44,074
	123,866	83,048
Net income before taxes	22,719	23,725
Capital taxes	1,868	1,517
Deferred income taxes (recovery) (*Note 6*)	(3,004)	2,076
Current income taxes (*Note 6*)	-	294
	(1,136)	3,887
Net income	$ 23,855	$ 19,838
Net income per Trust Unit	$ 0.24	$ 0.27
Weighted average number of Trust Units outstanding during the period	100,023,159	73,833,765

Consolidated Statement of Accumulated Income

For the period ended December 31 ($thousands)	1997[1]	1996[2]
Accumulated income, beginning of period	$ 19,838	$ -
Net income	23,855	19,838
Accumulated income, end of period	$ 43,693	$ 19,838

[1] for the year ended December 31, 1997
[2] for the period from inception April 3, 1996 to December 31, 1996

EnerMark Income Fund

Consolidated Statement of Changes in Financial Position

For the period ended ($thousands)	1997[1]	1996[2]
Operating activities		
Net income	$ 23,855	$ 19,838
Depletion, depreciation and amortization	72,006	44,074
Deferred income taxes (recovery)	(3,004)	2,076
Funds flow from operations	92,857	65,988
Decrease (increase) in non-cash working capital	15,780	(37,607)
	108,637	28,381
Financing activities		
Issue of Trust Units	112,273	145,333
Cash distributions to Unitholders	(101,763)	(44,184)
Bank loan (payments) proceeds	50,823	(57,024)
Other	-	236
	61,333	44,361
Investing activities		
Property, plant and equipment	(65,822)	(90,023)
Proceeds on sale of property, plant and equipment	45,824	13,308
Acquisition of Quest Oil & Gas, Inc. (*Note 2*)	(124,885)	-
Long-term investments	(1,745)	-
Site restoration and abandonment	(351)	(674)
	(146,979)	(77,389)
Increase (decrease) in cash and short-term investments	22,991	(4,647)
Cash and short-term investments, beginning of period	11,795	16,442
Cash and short-term investments, end of period	$ 34,786	$ 11,795

Consolidated Statement of Accumulated Distributions

For the period ended December 31 ($thousands)	1997[1]	1996[2]
Accumulated distributions, beginning of period	$ 44,184	$ -
Distributions	101,763	44,184
Accumulated distributions, end of period	$ 145,947	$ 44,184

[1] for the year ended December 31, 1997
[2] for the period from inception April 3, 1996 to December 31, 1996

Notes to Consolidated Financial Statements

For the year ended December 31, 1997 and for the period from inception April 3, 1996 to December 31, 1996
(tabular amounts shown in $thousands, except Unit and per Unit amounts)

Note 1: Summary of Significant Accounting Policies

(a) Organization

EnerMark Income Fund (the "Fund") was formed for the purpose of effecting an arrangement under the Business Corporations Act (Alberta), involving, among other things, the exchange of Mark Resources Inc. ("Mark") securities for Units of the Fund (the "Arrangement"). The effective date of the Arrangement was April 3, 1996.

The Fund is an unincorporated investment trust governed by the laws of the Province of Alberta and created pursuant to a Declaration of Trust. The beneficiaries of the Fund (the "Unitholders") are holders of Trust Units issued by the Fund (the "Trust Units"). The Fund is a limited-purpose trust whose purpose is to invest in securities of its wholly-owned subsidiary EnerMark Inc. ("EnerMark"), invest in royalties granted by EnerMark, administer the assets and liabilities of the Fund and make distributions to the Unitholders all in accordance with the Declaration of Trust.

The Management of the Fund prepares its financial statements following accounting policies generally accepted in Canada. The following significant accounting policies are presented to assist the reader in evaluating these consolidated financial statements and, together with the following notes, should be considered an integral part of the consolidated financial statements.

(b) Basis for Accounting

The consolidated financial statements include the accounts of the Fund, EnerMark and EnerMark's subsidiaries. All transactions between the Fund, EnerMark and EnerMark's subsidiaries have been eliminated for purposes of these consolidated financial statements.

(c) Property, Plant & Equipment - Oil & Gas

The Fund follows the full cost method of accounting. All costs of acquiring oil and natural gas properties and related development costs are capitalized and accumulated in separate cost centres for each country. Maintenance and repairs are charged against earnings, and renewals and enhancements, which extend the economic life of the property, plant and equipment are capitalized. During 1997, general and administrative costs of $3,823,000 (1996 - $2,116,000) were capitalized. No interest expenses have been capitalized.

Gains and losses are not recognized upon disposition of oil and natural gas properties unless such a disposition would significantly alter the rate of depletion.

(d) Ceiling Test

The Fund places a limit on the aggregate cost of property, plant and equipment which may be carried forward for amortization against revenues of future periods (the "ceiling test"). The ceiling test is a cost recovery test whereby the capitalized costs less accumulated depletion and site restoration are limited to an amount equal to estimated undiscounted future net revenues from proven reserves based on year-end prices, plus the unimpaired costs of non-producing properties less estimated future general and administrative expenses, site restoration costs, management fees, financing costs and income taxes. Future distributions to Trust Unitholders, whether or not they are required under the Trust Indenture, are not considered future financing costs for purposes of the ceiling test. Costs and prices at the balance sheet dates are used in determining ceiling test amounts. Any costs carried on the balance sheet in excess of the ceiling test limitation are charged to earnings.

(e) Depletion and Depreciation

The provision for depletion and depreciation of oil and natural gas assets is calculated using the unit of production method based on the Fund's share of proven reserves before royalties. Reserves are converted to equivalent Units on the basis of approximate relative energy content.

(f) Site Restoration and Abandonment

The provision for estimated site restoration costs is determined using the unit of production method and is included in the depletion, depreciation and amortization expense. Actual site restoration costs are charged against the accumulated liability.

(g) Other Equipment

All other equipment is carried at cost and is depreciated over the estimated useful lives of the assets at annual rates varying from 10% to 30%.

(h) Joint Venture

Substantially all oil and natural gas production activities are conducted jointly with others. Accordingly, the accounts reflect the Fund's proportionate interest in these activities.

(i) Cash Distributions

Cash distributions are calculated on an accrual basis and are paid monthly to the Unitholders based upon funds available for distribution. *(See Note 7).*

(j) Foreign Currency Translation

Foreign currency balances of foreign subsidiaries are translated into Canadian dollars using the temporal method. The monetary assets and liabilities are translated at the prevailing rates of exchange at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the average rate of exchange during the month the transaction occurred. Any resulting gains and losses are included in earnings.

(k) Income Taxes

The Fund is an inter vivos trust for income tax purposes. As such, the Fund is taxable on any income which is not allocated to the Unitholders. The Fund intends to allocate all income to Unitholders. Should the Fund incur any income taxes, the funds available for distribution will be reduced accordingly. Provision for income taxes is recorded in EnerMark, and its subsidiaries, at applicable statutory rates.

(l) Deferred Reorganization Charges

Deferred reorganization charges are related to the Arrangement. These charges are being amortized over a five year period.

(m) Investments

Investments are shown on the balance sheet at the lower of cost or net realizable value.

(n) Financial Instruments

The Fund's financial instruments that are included in the balance sheet are comprised of accounts receivable, current liabilities and long-term debt.

(i) Fair values of financial assets and liabilities: The fair values of financial instruments that are included in the balance sheet, including long-term debt, approximate their carrying amount due to the short-term maturity of those instruments and the variable prime rate applied to long-term debt.

(ii) Credit risk: Virtually all of the Fund's accounts receivable are with customers in the oil and natural gas industry and are subject to normal industry credit risks.

Note 2: Acquisition of Quest Oil & Gas, Inc.

On April 22, 1997, EnerMark completed a plan of arrangement which resulted in the acquisition by EnerMark of all the issued and outstanding shares and warrants of Quest Oil & Gas, Inc. ("Quest") a public British Columbia corporation engaged primarily in the exploration for and development of oil and natural gas reserves. The total consideration of $124,885,000 consisted of 1,190,660 Units of the Fund, with a recorded value of $8,070,000, cash of $112,819,000 and costs associated with the acquisition in the amount of $3,996,000. The total consideration paid in excess of the carrying value recorded in the accounts of Quest has been allocated as an increase to EnerMark's property, plant and equipment in the amount of $42,554,000. The net assets acquired and liabilities assumed are summarized as follows:

Property, plant and equipment	$ 148,782
Working capital deficiency	(4,181)
Long-term debt assumed	(17,808)
Site restoration and abandonment	(1,908)
Net assets acquired	$ 124,885

Note 3: Bank Debt

EnerMark has banking arrangements for a revolving, extendible production credit facility (the "Facility") from a Canadian chartered bank in the amount of $200,000,000 (1996 - $175,000,000). As at December 31, 1997, $71,500,000 (1996 - $115,200,000) was unutilized. During the revolving period of the Facility, only interest payments are required. The Facility is reviewed annually. In the event the revolving period is not extended, an automatic term loan facility results requiring monthly interest payments with principal repayments made quarterly over a maximum period of five years. Interest charged on bank indebtedness is incurred under several pricing options, however, the maximum rate incurred will generally be the bank's prime rate. Substantially all of the assets of EnerMark are provided as security for the Facility in priority to all royalties or other securities of EnerMark held by the Fund.

The bank loan is the legal obligation of EnerMark. The Unitholders have no direct liability to EnerMark should the properties securing the debt generate insufficient revenues.

Note 4: Related Party Transactions

An agreement has been entered into with EMR Resource Management Ltd. ("EMR") to provide management, advisory and administration services to the Fund and EnerMark. As at December 31, 1997, $4,218,000 (1996 - $3,599,000) was payable to EMR.

In addition to the fees of 2.2% (1996 - 2.5%) of Canadian operating income which are reported on the Consolidated Statement of Net Income, EMR earned fees of $2,915,000 (1996 - $1,779,000) in relation to certain property acquisitions and divestitures of EnerMark. These amounts which are based on 1.5% of the purchase price or 1.25% of the sales proceeds of oil and natural gas properties are included in the cost of property, plant and equipment.

In 1996, EMR also earned fees associated with the Arrangement in the amount of $5,000,000. These are included in deferred reorganization charges.

Note 5: Fund Capital

(a) Authorized: unlimited number of EnerMark Income Fund Trust Units

	1997[1]		1996[2]	
Issued:	Units	Amount	Units	Amount
Balance, beginning of period	**93,231,140**	**$436,433**	72,861,919	$291,100
Acquisition of Quest Oil & Gas, Inc. *(Note 2)*	**1,190,660**	**8,070**	-	-
Issued for cash:				
Pursuant to Option Plans	**635,756**	**4,106**	369,461	2,385
Pursuant to public offering	**13,000,000**	**87,185**	20,000,000	142,950
Issued pursuant to Distribution Reinvestment Plan	**817,278**	**5,413**	-	-
Issued pursuant to sale of Units held by wholly-owned subsidiary	**1,058,267**	**7,500**	-	-
Redeemed	**(89)**	**(1)**	(240)	(2)
Fund capital	**109,933,012**	**$548,706**	93,231,140	$436,433

[1] for the year ended December 31, 1997
[2] for the period from inception April 3, 1996 to December 31, 1996

Pursuant to a plan of arrangement which was completed on April 22, 1997, the Fund acquired all of the issued and outstanding shares and warrants of Quest Oil & Gas, Inc. *(Note 2)*. The total consideration paid included the issuance of 1,190,660 Units of the Fund recorded at a value of $6.778 per Unit.

The Fund issued 13,000,000 Units at a price of $7.10 per Unit pursuant to a short form prospectus which closed on August 9, 1997. Costs of the issue were $5,115,000 and have been recorded as a reduction of Fund capital.

The Fund issued 20,000,000 Trust Units at a price of $7.55 per Unit pursuant to a short form prospectus which closed on December 3, 1996. Costs of the issue were $8,050,000 and have been recorded as a reduction of Fund capital.

Units are redeemable by Unitholders at any time, on demand, at 85% of the market price in effect from time to time.

Pursuant to a monthly Distribution Reinvestment and Unit Purchase Plan, which became effective on March 1, 1997, Unitholders are entitled to reinvest cash distributions in additional Units of the Fund. Unitholders are also entitled to make optional cash payments to acquire additional Units. Units are issued at a discount of 5% below the average market price on the Toronto Stock Exchange for the five trading days preceding a distribution payment date and without service charges or brokerage fees.

On October 29, 1997 a wholly-owned subsidiary of EnerMark disposed of its entire investment in the Fund consisting of 1,058,267 Units for total proceeds of $7,500,000 net of costs related to the sale.

(b) Unit Options

On August 22, 1996 a special resolution was passed approving a Trust Unit Option Plan (the "Option Plan") for trustees, directors, officers, employees and consultants of the Fund or its affiliates and related parties involved in the management of the Fund. Activity was as follows:

	1997[1]	1996[2]
Outstanding as at beginning of period	**2,536,924**	-
Granted, during the period	**1,558,903**	2,989,652
Exercised, during the period	**(525,775)**	(319,505)
Cancelled, during the period and reserved under the Option Plan	**(212,975)**	(133,223)
Outstanding as at end of period	**3,357,077**	2,536,924
Balance of Trust Units reserved under the Option Plan	**3,097,643**	4,443,571
Total Trust Units reserved under the Option Plan, as at end of period	**6,454,720**	6,980,495

Outstanding Trust Unit Options under the Option Plan are exercisable at prices between $6.45 and $7.05 per Unit and expire at various dates to December 31, 2000.

In addition to the Option Plan, certain previous employees of Mark who accepted positions with EnerMark were granted options for 390,000 Trust Units exercisable at $6.48 per Unit, which expire on December 31, 1999. Of these, 113,315 (1996 - 49,956) were exercised and 6,667 (1996 - 30,001) cancelled during the period. As at December 31, 1997, 190,061 options remain exercisable until December 31, 1999.

[1] for the year ended December 31, 1997
[2] for the period from inception April 3, 1996 to December 31, 1996

Note 6: Income Taxes

During 1997, the Fund had taxable income of $20.1 million (April 3, 1996 to December 31, 1996 - $19.8 million) or 20.3 cents per Unit (April 3, 1996 to December 31, 1996 - 24.2 cents per Unit) which was allocated to the Unitholders. Taxable income of the Fund is comprised of income on securities issued by EnerMark less deductions for Canadian oil and gas property expense ("COGPE"), which is claimed at a rate of 10 percent on a declining balance basis and the allowable portion of the cost of issuing new Trust Units during the period. Any losses which occur in the Fund must be retained in the Fund and may be carried forward and deducted from taxable income for a period of seven years. The amount of COGPE and issue costs remaining in the Fund are as follows:

	1997		1996	
	Per Unit	Amount	Per Unit	Amount
COGPE	$1.10	$120,963	$0.28	$26,642
Issue costs	0.08	8,975	0.07	6,510
Total	$1.18	$129,938	$0.35	$33,152

The provision for income taxes in the consolidated statement of net income represents an effective tax rate different than the Canadian statutory tax rate. The differences are as follows:

	1997 [1]	1996 [2]
Net income before taxes	$ 22,719	$ 23,725
Computed income tax expense at the Canadian statutory rate of 44.62%	10,137	10,591
Increase (decrease) resulting from:		
Non-deductible crown royalties and other payments	11,368	9,669
Federal resource allowance	(10,171)	(8,920)
Alberta Royalty Tax Credit	(619)	(582)
Non-deductible depletion	2,113	2,098
Interest expense on EnerMark securities	(15,815)	(10,495)
Other	(17)	9
Deferred income taxes (recovery)	$ (3,004)	$ 2,370

As at December 31, 1997, property, plant and equipment included $43.7 million (1996 - $50.7 million) of costs which have no tax base for income tax purposes.

[1] for the year ended December 31, 1997
[2] for the period from inception April 3, 1996 to December 31, 1996

Note 7: Cash Available for Distribution

Reconciliation of cash available for distribution	1997[1]	1996[2]
Funds flow from operations	$ 92,857	$ 65,988
Quest Oil & Gas, Inc. operating cash flow from effective date of acquisition to closing date	4,975	-
	97,832	65,988
Deduct funds flow attributable to Units held by wholly-owned subsidiary	(667)	(857)
Cash available for distribution	$ 97,165	$ 65,131
Cash available for distribution per Unit	$ 0.945	$ 0.810

Cash available for distribution per Unit was paid to Unitholders as follows:

			1997[1]		1996[2]	
For the month ended	Record Date	Payment Date	Monthly Payment	Quarterly Total	Monthly Payment	Quarterly Total
January 31	March 10	March 20	$0.075		-	
February 28	April 10	April 20	0.075		-	
March 31	May 10	May 20	0.090	$0.240	-	-
April 30	June 10	June 20	0.075		$ 0.075	
May 31	July 10	July 20	0.075		0.075	
June 30	August 10	August 20	0.090	$0.240	0.100	$ 0.250
July 31	September 10	September 20	0.075		0.075	
August 31	October 10	October 20	0.075		0.075	
September 30	November 10	November 20	0.090	$0.240	0.110	0.260
October 31	December 10	December 20	0.075		0.075	
November 30	December 31	January 20, 1998	0.075		0.075	
December 31	February 10, 1998	February 20, 1998	0.075	$0.225	0.150	0.300
Cash available for distribution			$0.945	$0.945	$ 0.810	$ 0.810

[1] for the year ended December 31, 1997
[2] for the period from inception April 3, 1996 to December 31, 1996

EnerMark Income Fund

Detailed Statistical Review

($thousands, except per Unit amounts)	1997[1]	1996[2]
Financial		
Gross oil and gas sales	$ 173,919	$ 132,423
Cash available for distribution	$ 97,165	$ 65,131
Per Unit	$ 0.945	$ 0.810
Net income	$ 23,855	$ 19,838
Per Unit	$ 0.24	$ 0.27
Capital expenditures, net of dispositions	$ 19,998	$ 76,715
Total assets	$ 670,203	$ 551,544
Bank debt, net of working capital	$ 102,925	$ 38,357
Net debt/funds flow ratio (1996 annualized)	1.1x	0.4x
Market price per Unit		
High	$ 7.65	$ 7.90
Low	$ 5.60	$ 6.20
Close	$ 6.40	$ 7.55
Volume traded (000 Units)	62,039	71,751
Operating		
Production		
Crude oil and NGLs (Mbbl)	5,419	3,747
Per day (bbl)	14,846	13,624
Average selling price (per bbl)	$ 22.42	$ 27.26
Natural gas (MMcf)	28,066	19,567
Per day (Mcf)	76,894	71,154
Average selling price (per Mcf)	$ 1.87	$ 1.53
MBOE	8,226	5,703
Per day (BOE)	22,535	20,739
Reserves (proven and probable)		
Crude oil and NGLs (MMbbl)	72.5	62.2
Natural gas (Bcf)	445.5	377.2
MMBOE	117.0	100.0
Reserve Life Index[3] (years)		
Crude oil and NGLs	14.0	11.2
Natural gas	15.7	14.1
MBOE	14.6	12.2

[1] for the year ended December 31, 1997
[2] for the period from inception April 3, 1996 to December 31, 1996
[3] the reserve life index is based on year end proven and probable reserves divided by volumes contained in the proven, producing reserve study

Detailed Statistical Review

($thousands, except per Unit amounts)	1997[1]	1996[2]
Cash available for distribution		
Funds flow from operations	$ 92,857	$ 65,988
Quest Oil & Gas Inc. operating cash flow from effective date of acquisition to closing date	4,975	-
Less funds flow attributable to Units held by wholly-owned subsidiary	(667)	(857)
Cash available for distribution	$ 97,165	$ 65,131
Cash available for distribution per Unit	$ 0.945	$ 0.810

Oil and gas economics ($ per BOE except percentage data)		
Gross royalty rate	18.9%	20.5%
Alberta Royalty Tax Credit	(0.8)	(1.0)
Net royalty rate	18.1%	19.5%
Weighted average selling price	$ 21.14	$ 23.48
Net royalty expense	(3.82)	(4.57)
Operating expense	(4.85)	(4.60)
Cash netback	12.47	14.31
General and administrative expense	(0.55)	(0.94)
Management fee	(0.28)	(0.35)
Profit margin	$ 11.64	$ 13.02

1 for the year ended December 31, 1997
2 for the period from inception April 3, 1996 to December 31, 1996

Distribution Reinvestment and Unit Purchase Plan

EnerMark Income Fund has developed a convenient method of reinvesting cash distributions or investing additional funds into new Trust Units. Any residents of Canada who hold Trust Units may participate in the Plan.

Features of the Plan include:

- New Units are purchased monthly at a 5% discount with reinvested distributions;
- Optional cash payments of the greater of the distribution received on Units held or up to $5,000 per month may be made to purchase new units at the same 5% discount regardless of whether monthly distributions are being reinvested;
- No service charges or brokerage fees are incurred by Unitholders and all administrative costs of the Plan are borne by the Fund;
- Participants will receive regular statements regarding their purchases.

If your units are held for you by your broker, investment dealer or other financial intermediary, you must direct that company to complete the necessary authorization forms.

You can make an optional cash payment when enrolling in the Plan by enclosing a cheque or money order payable to "The CIBC Mellon Trust Company" with the completed authorization form.

EnerMark Internet Site

EnerMark Income Fund launched a comprehensive website in 1997 to provide investors with an immediate source of all public information. The following documents are available at **www.enerplus.com**:

Annual Reports
Tax Information
Recent Presentations
Historical Distribution Tables
Fact Sheets
News Releases
15 Minute Delayed Stock Quote
Distribution Reinvestment and Unit Purchase Plan

For more information and/or enrolment forms, please contact the Investor Relations Department at 1-800-319-6462, in Calgary at (403) 298-2200, by fax at (403) 298-2211 or by email: investorrelations@enerplus.com

Corporate Information

Trustees

André Bineau [1] [3]
Vice President,
Association de bienfaisance et de retraite des policiers et policières de la Communauté urbaine de Montréal
Montréal, Québec

Neal H. Eggen [1] [2] [3]
Retired Executive
Calgary, Alberta

Dennis R. Gieck [2]
Executive Vice President and Chief Operating Officer
Enerplus Energy Services Ltd.
Calgary, Alberta

Andrew Janisch [1]
Chairman, President
Jandess Ltd.
Calgary, Alberta

Elizabeth R.S. McSweeny
Businesswoman
Calgary, Alberta

Jack W. Peltier [2] [3]
President, Ipperwash Resources Ltd.
Calgary, Alberta

Marcel J. Tremblay
President and C.E.O.
Enerplus Energy Services Ltd.
Calgary, Alberta

[1] Audit Committee
[2] Environment and Safety Committee
[3] Compensation Committee

Head Office

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Related and Associated Entities

EMR Resource Management Ltd.
EnerMark Inc.

Legal Counsel

Blake Cassels & Graydon
Calgary, Alberta and
Toronto, Ontario

Auditors

Price Waterhouse
Calgary, Alberta

Bankers

The Canadian Imperial Bank of Commerce
Calgary, Alberta

Transfer Agent

The CIBC Mellon Trust Company
Calgary, Alberta
1-800-387-0825; email:
inquiries@cibcmellon.com

Stock Exchange Listings

The Toronto Stock Exchange
Montreal Exchange

Trading Symbol

Trust Units: EIF.UN

Officers

Marcel J. Tremblay
President and Chief Executive Officer

Dennis R. Gieck
Executive Vice President and Chief Operating Officer

Kelly I. Drader
Senior Vice President

Karen A. Genoway
Senior Vice President

Gordon J. Kerr
Vice President, Finance and Chief Financial Officer*

Patrick J. Cairns
Vice President, Evaluations

Daryl Cook
Vice President, Operations

Heather Culbert
Vice President,
Administration and M.I.S.

Raymond J. Giroux
Vice President, Special Projects

Eric P. Tremblay
Vice President,
Corporate Development

Wayne T. Foch
Treasurer

Christina S. Meeuwsen
Corporate Secretary

Richard D. Parsons
Controller

* Effective March 15, 1998

Abbreviations

ARTC	=	Alberta Royalty Tax Credit
bbl	=	barrel
bbl/d	=	barrel(s) per day
Bcf	=	billion cubic feet
BOE	=	barrel of oil equivalent (10 Mcf gas = 1 bbl crude oil)
BOE/d	=	barrel of oil equivalent per day
Mbbl	=	thousand barrels
MBOE	=	thousand barrels of oil equivalent
Mcf	=	thousand cubic feet
Mcf/d	=	thousand cubic feet per day
MMbbl	=	million barrels
MMBOE	=	million barrels of oil equivalent
MMbtu	=	million British thermal units
MMcf	=	million cubic feet
MMcf/d	=	million cubic feet per day
NGL	=	natural gas liquids
NYMEX	=	New York Mercantile Exchange
TSE	=	The Toronto Stock Exchange
WTI	=	West Texas Intermediate at Cushing, OK.

Publié également en français: veuillez vous addresser à EnerMark, Directeur, Expansion de la Société, à 1-800-319-6462

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